CREDIT MANAGEMENT IN NEPALESE COMMERCIAL BANKS

(With Reference to NABIL, NIBL & SCBNL)

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Meaning of Credit Management

Credit management, to make it simple, refers to fund and working capital management. However, most people have some miss concepts. They only consider credit management is a short-term process. In fact, if it relates to working capital, it may be right. However, if it relates to fund management, it can be a long-term basis. You may imagine asset valuation for credit evaluation, i.e. a credit management step, refer to fixed assets usually. Value of fixed assets will change over its life. In other words, your credit evaluation will adjust all the time. Credit Management is the process of mitigating the risk involved in granting the credit. It is a key to successfully utilize our credit by minimizing our risks and losses. Credit is regarded as the most income generating assets especially in commercial banks.

Credit is regarded as the heart of the commercial banks in the sense that; it covers the main part of the investment; the most of the investment activities based on credit; it is the main factor of creating profitability. It is the main source of creating profitability: it determines the profitability. It’s effect the overall economy of the country. In today context, it also affects on national economy to some extent. If the bank provides credit to retailer, it will make the customer status similarly, it provides to trade and industry, the Govt. will get tax from then and help to increase the national economy. It is the security against depositors. It is proved from very beginning that credit is the shareholders wealth maximization derivative. However, other factors can also affect profitability and wealth maximization but the most effective factor is regarded as credit. It is the most challenging job because it is backbone in commercial banks. Thus, effective management of credit should seriously be considered.

Management is the system of, which helps to complete the every job effectively. Credit management is also the system, which helps the manage credit effectively. In other words, credit management refers management of credit exposures are the main source of investment in Commercial Banks and return on such investment is suppose to be main source of income.

Credit Management strongly recommends analyzing and managing the credit risks. Credit risk is defined as the possibility that the borrower will fail to meet its obligations in accordance with the agreed terms and conditions credit risk is not restricted to lending activities only but includes off balance sheet and interbank explores. The goal of the credit risk management is to be maximizing a bank's risk adjusted rate of return by maintaining the credit risk exposure within acceptable parameters. For most banks, loans are the largest and most obvious sources of credit risk, however, other source of credit risk exit throughout the activities of the bank, including the banking book, and in the trading book, and both increasingly facing credit risk in various financial instruments other than land, including acceptances, inter bank transactions and guarantees and the settlements of transactions.

The credit policy of a firm provides the framework to determine whether or not to extend credit and how much credit to extend. The credit policy decision of a bank has to broad dimensions; credit standards and credit analysis. A firm has to establish and use standards and making credit decision, develop appropriate sources of credit information and methods of credit analysis.

Definitions

Credit Management is defined as the management of the risks and costs associated with allowing customers time to pay. The use of the word credit in the context of this policy relates to the provision of goods or services for payment at a later date.

Prudent extension of credit means supplying goods and services with payment due generally on receipt of invoice. Payment periods (i.e. credit) may be offered where necessary to ensure that services remain accessible but will vary from service to service.

Balancing of financial risk means evaluating the financial risk of providing goods and services in advance of payment and the likely prospect of recovering sums due. For non-statutory services this necessarily involves the checking of creditworthiness to inform decisions to provide services in advance of payment or, alternatively, to insist on payment first where creditworthiness is in doubt.

Efficient collection of income means encouraging people to pay on time by offering a wide variety of payment methods, including direct debit and repayment, and using cost effective collection methods, such as automated reminder letters, telephone calls and personal visits. It also means making decisions on the advancing of credit and the collection of debt in an equitable manner. A manner which considers financial status only (i.e. ability to pay) and not discriminating by age, gender, disability or ethnicity.

Customer care and client sensitivity means handling all customer enquiries with courtesy and sensitivity and meeting the needs and expectations of different client groups, including offering flexible payment options and a wide variety of payment methods.

Importance of Credit Management

Keeping your credit file as clean as possible is very important to ensure that you know exactly what you are going to be able to get in terms of interest rates, available credit and possible house payments as well. With good credit, you can find interest rates are going to be much lower and you stand the chance of being able to really work out a good deal in terms of stretching your finances even further. With bad credit you are charged much higher interest rates, as well as the amount of credit that is available to you is much lower. This makes it much harder to actually obtain a Loan and work out a satisfactory arrangement when you are trying to buy a car, a house or even apply for a credit card.

Many people do not realize just how dramatically a single bad mark on your credit can alter your ability to obtain good interest rates. The impact is even more dramatic the more negative items appear on your credit file. Someone with bad credit has a very difficult time obtaining credit of any form, including a job at times. Keeping your credit file clean is often one of the only ways to ensure that you will be able to obtain a good job, as well as qualify for the lowest interest possible in order to save money while still purchasing the things you need in life.

While it is possible to survive life with bad credit, it is much harder and purchasing a vehicle or even a home is much more expensive in the increased interest rates along that are charged with programs that offers Bad Credit Loans. If you are interested in qualifying for the lowest interest rates that are offered on vehicles, credit cards and even home mortgage rates you are going to have to maintain a good credit file with virtually no blemishes to keep those good interest rates. Negative marks on your credit file can increase your interest rates by as little as 1% additional interest and as much as 20% higher.

The increased amount of money charged to people with bad credit just in additional interest charges alone is enough to more than cover most debt payments for someone with good credit. For example, if you are purchasing a home having bad credit can cost you as much as an additional Rs 10,000 a month in mortgage payments. This is a huge difference and can often mean the difference between being able to afford to purchase a home and being forced to continue renting for many years.

Responsible credit management is very important to saving money and ensuring that you are not overpaying for items that you want. Everyone is capable of making responsible credit decisions if they are careful and select their choices carefully. For all of the wrong credit decisions you can make, there are numerous good credit decisions you can make as well which can help you to ensure you always have multiple options to choose from so you can select the best credit management option for your needs.

Introduction of Sample Organizations under Study

A. Standard Chartered Bank Nepal Limited (SCBNL)

In the history of Standard Chartered Bank, it was formed since 1969 merger between the overseas banks: the Standard Bank of British of British South Africa and the Chartered Bank of India, Australia, and China. In the initial phases most of the profit made from Hong Kong, Korea, and parts of Asia in its market.

Standard Chartered Bank Nepal Limited is a subsidiary of Standard Chartered group. It is the largest international Commercial Bank of Nepal. It was the joint venture of Standard Chartered Group who has 75% ownership in the company with 25% shares owned by the Nepalese public and operated since 1989 with initial paid up capital 100 million.

Standard Chartered Bank Limited is in a position to serve its customers through a large domestic network. It was firstly launched and implemented “Anti money laundering policy” and applied the “Know your Customer (KYC)” procedure on all the customer accounts.

Standard Chartered Bank Nepal Limited offers a full range of banking products and services in wholesale and customer banking, catering to a wide range of customers encompassing individuals, mid-market local corporate, multinationals, large public sector companies, Govt. corporations, airlines, hotels as well as the DO segment comprising of embassy, aid agencies, NGOs and INGOs. There are 12 branches of SCBNL with head office and it has 19 ATMs.

Promoters and Shareholders

Standard Chartered Gridley’s Bank, Australia	50%
Standard Chartered Gridley’s Bank, UK	25%
General Public	25%

Shares	Amount (Current Year)
Authorized Capital (10,000,000 ordinary shares @ Rs. 100)	2,000,000,000
Issued Capital (10,000,000 ordinary shares @ RS. 100)	1,610,168,000
Paid-up Capital (9,319,664 shares @ Rs. 100)	1,610,168,000

B. Nepal Arab Bank Limited (NABIL)

NABIL was the Nepal’s first and major joint venture bank which commenced operations on 2nd July 1984 (29th Ashad 2041) with a Paid-up Capital of Rs. 30 million under the Company Act. Dubai Bank Ltd. (DBL) earlier it was called Nepal Arab Bank Ltd. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards by world renowned software from Infosys technologies system, Bangalore, India, and Internet Banking System and tale-banking system. The main slogan of the bank is

"YOUR BANK AT YOUR SERVICE". The head office is located in Kamaladi, Kathmandu.

Today NABIL bank is in unique position in the banking industry in Nepal, as the nation's initial foreign joint venture partner with 50% equity investment. It has an unmatched 22 years of operational experiences giving it unparalleled insight into the market, risk, opportunities and customers' needs. In conjunction to this, the bank today surges ahead in meeting its missions to be the "Bank of 1st Choice" for all its stakeholders, customers, shareholders, regulators.

The shares owned by DBL were transferred to Emirates Bank International Limited (EBIL), Dubai. Later on EBIL sold its entire holding to National Bank International Ltd. Hence 50% equity shares of NABIL Bank Ltd. Are held by NBIL and out of another 50%, financial institutions has taken 20% and remaining 30% were used to general public of Nepal. There are 34 branches of NABIL (until April 2010) another going to be operated very soon in next future.

Capital Structure of NABIL Bank Limited

Share Distribution Pattern of NABIL

N.B (international) Limited, Ireland	50%
General Public	30%
Nepal Industrial Development Corporation	6.15%
Others*	3.85%
Other Entities	10%

Share Capital of NABIL Bank Limited

Particulars	**Amount**
Authorized Capital 21,000,000 ordinary Share @ Rs. 100)	2,100,000,000
Issued Capital (20,297,694 ordinary Shares @ Rs. 100)	2,029,769,400
Paid-up Capital (20,297,694 ordinary Shares @ Rs. 100)	2,029,769,400

C. Nepal Investment Bank Limited (NIBL)

Nepal Investment Bank Limited (NIBL) is one of the leading banks of Nepal. It was established in 1986 as a joint venture between Nepalese and French partners and was previously known as Nepal Indosuez Bank Ltd. NIBL was established with the vision to bet the most preferred provider of financial services in Nepal. NIBL focuses on serving the customers and communities with the belief that success can only achieved by living our core values and ethical principles. NIBL provides a complete range of commercial banking services with 18 points of representation in different parts of the country. It also has a widespread reach across the globe with the tie up with various corresponding banks.

Share Capital and Ownership of NIBL Bank

Shareholders of NIBL

Organized Institutions	50%
Rastra Banijya Bank	15%
Rastriya Beema Sansthan	15%
General Public	20%

The shareholders structures are as follows:

PARTICULARS	AMOUNT
Authorized Capital 40,000,000 ordinary Share @ Rs. 100)	4,000,000,000
Issued Capital (24,090,977 ordinary Shares @ Rs. 100)	2,409,097,700
Paid-up Capital (24,070,689 ordinary Shares @ Rs. 100)	2,409,097,700

Statement of the Problems

Credit management is the essence of commercial banking; consequently the formulation and implementation of sound credit policies are among the most important responsibilities of bank directors and management. Well conceived credit policies and careful credit practices are essential if bank is to perform its credit creation function effectively and minimize the risk inherent in any extension of credit.

Credit management affects on the company's profitability and liquidity, so it is one of the crucial decisions for the commercial banks.

Basically, the banks in Nepal have been facing the following problems in credit and investment sectors. The provided loan and any investment should be secured for easy recovery not only backed by the fixed collateral securities. Because the money which have been gone out as a loan, is the money deposited in the bank, by the small and big depositors which has to be returned back to the depositors at any time or in a certain period of time. It can be assured by analyzing the borrower's loan request and proposal which is one of the main jobs in the banking.

The commercial banks are also facing the problem of over liquidity due to the lack of lending opportunities.

Commercial banks have to face tough competition due to limited and narrow capital market and investment opportunities. Even the difficult economic environment has reduced the earning capacity of many sectors in the economy, thereby affecting the overall performance of the commercial banks. The volume of nonperforming loans is rising steadily. This has resulted in constraints in the earning capacity of the banks. It has also reduced the turnover of funds in commercial banking sector thereby failing to generate more business.

Objectives of the Study

The basic objective is the comparative analysis and evaluation of the credit management of the commercial banks. The following objectives are also considered in this study:

- To assess credit practices of selected Nepalese commercial banks.
- To evaluate the performance of the management team of selected Nepalese commercial banks.
- To evaluate liquidity, activity, profitability ratios and risk ratios.
- To compare credit policy of concerned banks and discusses the fund mobilization as loan and advances of sample banks.

- To analyze relationship of loan and advance, total investments with total deposits.
- To examine the volume of non-performing loan
- To explore the adequacy of loan loss provisioning.
- To administer an efficient debt collection process that is organized such that responsibilities of departments are clearly defined and processes are well understood and documented.
- To ensure that all amounts due are collected according to the agreed payment terms and that the most efficient methods of payment are used.
- To ensure that the cost of providing goods or services on credit terms and the cost of recovery is kept to a minimum.
- To identify high risk customers, especially those likely to get into financial difficulties and to take appropriate action to safeguard further revenue income and establish satisfactory payment arrangements
- To maintain high quality and comprehensive accounts receivable information to provide robust management information and accurate customer accounts history.
- To operate within an overall framework where core working practices are consistently applied across all services and best practice adhered to.
- To achieve performance targets in the top quartile of our comparator authorities and aspire to continually improve.
- To adhere strictly to legislation, codes of conduct and professional guidelines, taking into account the Council's policies on equalities and considering diversity issues

Significance of the Study

Commercial banking sector is considered as successful area in financial sector of Nepal. In today's context, commercial banks have to be more organic and sincere to establish better creditability position due to vast competition among them the present concept deals with how commercial banks managed credit position and how do it affect to organizational effectiveness.

Present study is very important from the point of view of bank management. The main strategy of every commercial bank is to establish the better creditability position, which has directly impacted the financial performance of an organization. Beside it helps to build positive attitude and perceptions non customer that helps to make the organizational successes in terms of better transaction, better turnover and better profitability most of the earlier researches were focused on financial performances of bank but few researches were focused on creditability position of bank. From view point of bank credit is the most important in and sincere area.

The Thesis report will help the commercial banks to fill up a research gap on the study of credit management.

The suggestions made by this report will help to improve their resource mobilization in the form of credit to generate income.

Beside theses, this study no doubt will have importance to various groups but in particular it is directed towards the certain groups of individuals/institutions, which are as under:

- Has an importance to the shareholders.
- Has an importance to the management bodies of the bank for the evaluation of the performance of the bank.
- Has an importance to the outsiders which the customers, financing agencies, stock exchange etc.
- Has an importance to the government bodies or the policy makers such as the central bank.
- Has an importance to the interested outside parties such as the investors, customers, competitors, personnel of the banks, stockbrokers, dealers and market makers.

Limitation of the Study

The scope of the study is limited only commercial banks because of time and resources constraints. Most of the analyses are descriptive in present study. This study is very basic attempt to address the researches issues; therefore, it might not be able to show casual linkage or effect. Instrument used for the data collection is not standardized questionnaire.

Present study could not address all the aspects of credit position. The study is based on employees; self reputed response about their perception on the primary analysis. It is therefore, the response collected from the employees might not be valid measure.
Secondary analysis is based on published financial data collected from stock exchange centre and share department of concerned banks. The secondary analysis covers time span of current five years. However the study tries to find out the credit position and its importance in selected commercial banks.

This study has reviewed only concerned banks NABIL, NIBL and SCBNL. The whole study is based only on data of five-year period 2007/2008 to 2009/2010.

Organization of the Study

The present study is organized in such a way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters which are follows.

Chapter- I Introduction

This chapter mainly deals with the Introduction part of the study. It includes the Importance of Credit management, Principles for the Management, Developing Credit Management Policy, Significance of the Study, Objectives of the Study, Limitation of the Study and Organization of the study.

Chapter – II Review of Literature

This chapter has focus on the Review of Literature which includes review of books, journals, bulletins and annual reports published by the banks and other related authorities, review of related articles and studies and previous thesis as well.

Chapter –III Research Methodology

This chapter includes the interpret parts which are research design, sources of data, analysis of data, population and sampling and tools for analysis which are ratio analysis and statistical tools.

Chapter – IV Data Presentation and Analysis

This chapter deals with the processing, analysis and interpretation of the data, the presentation and analysis of relevant though define course of research methodology with the financial and statistical analysis related to Credit and fund mobilization of banks. Major findings of the study are also included in this chapter.

Chapter – V Summary, Conclusion and Recommendation

This is the last chapter of the study which provides summary and conclusion, suggestions and recommendations for the improvement in the future performance of the sample banks.

Finally, an extensive, bibliography and appendices are also presented at the end of the thesis work.

Research Gap

Commercial bank invests its deposits in different sectors of Investment according to the Act, rules, directives ad circular of the Nepal Ratra Bank and guidelines and policy of their own bank. Lending of loans and credit to be manage according to direction of NRB. NRB's policy and guideline are changing according time to time. So, the up to date study over the changes of time frame is major concern for the researcher and concerned organization as well as industry as a whole. The study covers the more recent financial data and analysis done within the latest guidelines and curriculum of NRB.

Credit management is the major function of every financial institution for evaluating the credit performance. Therefore, it is the major concern of stakeholder to know the financial situation of the banks. NABIL, NIBL and SCBNL are the leading joint venture commercial banks of the country having the huge market share and its investment activities and these banks has significant impact on developing the economy of the country. Every year, the financial performances are changing according to the environment of the country. Hence, this study fulfills the prevailing research gap about the depth of the credit management performance which is the major concern of the shareholders, stakeholders and regulators.

Research Methodology

Research is the process of systematic and in-depth study of any particular subject or to investigation, backed by collection, compilation, presentation and interpretation of relevant data and information.

Methodology is a set of methods used in a particular area of activity. As it is compulsory task to do these study so each and every student must perform it?

Research Design

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.

Research design is the plan, structure, and strategy of investigation conceived so as to obtain answer to research question and to control variance. It includes is the overall scheme or program of research. It includes on outline of what the investigator will do from writing the hypothesis and their operational implications to final analysis of data. The structure of research is more specific. It is the outline, the scheme, and the paradigm of operations of the variables. Strategy includes the methods to be used to gather and analysis the data. In other words, strategy implies how the problems encountered in the research will be tracked.

Sources of Data

Basically this study will include the secondary data relating to the Investment and policies regarding the credit of the commercial Banks. Primary data will also be used where secondary data are inadequate.

This study include secondary data relating to “Credit” e.g. deposit, loan and advances, and profit/loss that have been collected from profit and loss account, balance sheet of related banks, annual report of auditors. Other relating data are obtained directly from related authorized persons of concerned banks, regulating authorities i.e. ministry of Finance, NRB budget speech, NRB published books, banks bulletin, Annual report of

Security exchange board of Nepal, newspaper, previous studies . According to the need and objective of the study, all the secondary data will be observed, processed and tabulated in time series.

Analysis of Data

To achieve the objective of this study some statistical and accounting tools have been used. The data extracted from financial statement and other available information are processed and tabulated in various tables and charts under different heading according to their nature. These data are then used for required calculations like ratio analysis, growth ratio and accounting tools are used to examine the financial strengths and weakness of the bank. Similarly, some statistical tools like graph, percentage coefficient of correlation, regression analysis and the method of least square linear trend are also used in this study. Statistical results help to achieve the objective of the study.

Population And Sample

The whole group which is to represent is called population, more precisely, the totality or aggregate of all individuals with the specified characteristic is a population (Universe). When some of the elements are selected with the intention of finding out something about the population from which they are taken, that group of elements is referred as a sample and the process of selection is called sampling. Simply, speaking the methods of selecting a portion of the universe with a view to draw conclusion about the universe under study is known as sampling.

The entire number of Commercial Banks will be population for the study. There are 31 commercial Banks including Agriculture Development Bank, by the year 2013. Study of the whole population may not be possible due to various difficulties so the pioneer three commercial banks have been chosen for the study.

Tools for Analysis

To compare these commercial banks, these following accounting and statistical tools are used for financial analysis.

Financial Ratio Analysis

The relationship between two accounting figures, expressed mathematically, is known as financial ratio (or simply ratio) (Pandey, 2000: 109).

Financial ratio analysis is designed to determine the relative strengths and weakness of business operations. It also provide framework for financial planning and control. Financial managers need the information provided by analysis both to evaluate the firm's past performance and to map future plans. Financial statement analysis involves a study of relationship between income statement and balance sheet accounts, how these relationship changes overtime and how a particular firm compares with other firms in its industry (Comparative ratio analysis).

The usefulness of ratios depends upon the ingenuity and the experience of the financial analyst who employs them. By themselves, financial ratios are fairly meaningless they must be analyzed in comparative basis. Comparison covers the leading clues in evaluating changes and trends in the first financial conditions and profitability. This comparison may be historical, but it may include an analysis of the future based upon projected financial statement (Van Horne and Achowiez, 1998:148).

The qualitative judgment has been done regarding financial performance of the firm with the help of ratio analysis. In this study, following ratio are calculated and analyzed.

A. Liquidity Ratio

The purpose of this ratio is to test the solvency position for the payment of short-term liabilities. Solvency position or liquidity denotes ability for payment of short-term liabilities.

Banking image is dependent upon its liquidity position. It should be able to provide demanded cash by its customer as and when necessary. Banking industry has its survival in its ability to create credit creation ability is dependent upon its liquidity ratio. The liquidity ratio of banking industry depends upon the banking habit of the people. Where banking practices is more pre relevant, the low current ratio doesn't necessarily increases its liquidity risk. But, in the economy like ours, here the banking habit of the people is low and the banking industry is just developing, the low liquidity ratio certainly increases the liquidity risk.

The following ratio is evaluated under liquidity ratio:

i) Current Ratio

The current ratio measures the extent to which the claims of short-term creditors are covered by short-term assets. Current ratio can be computed as:

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current assets include normally those assets of a firm which could be converted into cash within one year period of time. These assets of firm includes cash, bank balance, and investment in treasury bills, discount, overdrafts, short term advance loans, and foreign currency loan, bills for collections, customer acceptance, stock receivable and prepaid expenses. Similarly, current liabilities includes those liabilities of a firm which are paid within one year period of time, like current payments, cash margins, current deposits, saving deposits, interbank reconciliation account, bills payable, provision for overdrafts, dividend payable, and provision for taxation.

Less or more than standard ratio is not preferable. If less than standard ratio, it shows the solvency position is not better and vice versa. Generally a current ratio of 2:1 is considered satisfactory.

ii) Cash and Bank Balance of Total Deposit Ratio

This ratio is competed by dividing cash and bank balance by total deposit. This is computed as,

$$\frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Cash and bank balance includes cash in hand foreign cash in hand; cheques and other cash items balance with domestic bank and foreign bank. The total deposit consists of current deposits and the fixed deposits, money at calls and short notice and other deposits.

iii) Cash and Bank Balance to Current Assets Ratio

The ratio is computed by dividing cash and bank balance by current assets. Higher ratio shows the bank's ability to meet its demand for cash. It can be computed as,

$$\frac{\text{Cash and Bank Balance}}{\text{Current Assets}}$$

iv) Loan and Advances to Current Assets Ratio

It shows the relationship between loan and advances to current assets or shows the capacity of a bank to purchase discount bill and loan, cash credit and overdraft facility to its customer. It can be computed as,

$$\frac{\text{Loan and Advances}}{\text{Current Assets}}$$

Loan and advances represent local and foreign bills discounted and purchased and loan, cash credit and overdraft in local currency as well as inconvertible foreign currency.

B. Assets Management Ratios (Activity Ratio)

A set of ratios which measures how effectively a firm is managing its assets and whether or not the level of those assets is properly related to the level of operations as measured by sales. So this ratio is also called efficiency ratio or turnover ratio. Because they indicate the speed with which the assets are converted or turn into sales. These ratios are very important for a concern to judge how well facilities at the disposal of the concern uses or to measure the effectiveness with which a concern uses its resources at its disposal. A proper balance generally reflects that assets are merged well. This ratio involves a relation between sales.

i) Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out, how successful the bank is utilizing their total deposition loan and advances for profit generation purpose. Higher the ratio implies the better utilization of loan and advances out of total deposit.

This is calculated as,

$$\frac{\text{Loan and Advances}}{\text{Total Deposit}}$$

ii) Total Investment to Total Deposit Ratio

Investment is one of the major components of credit created to earn profit. This implies the utilization of firm's deposit on investment in government securities and shares, debenture of other companies and bank. This ratio can be calculated as,

$$\frac{\text{Total Investment}}{\text{Total Deposit}}$$

The numerator Total Investment consists of investment on government securities, investment on debentures, share in other companies and other investment.

iii) Loan and Advances to Total Working Fund Ratio

Loan and advances is the major component in working fund (total assets), which includes the ability of bank to channelize its deposit in the form of loan and advances to earn high return. This can be calculated by dividing loan and advances by total working fund. This can be stated as,

$$\frac{\text{Loan and Advances}}{\text{Total Working Fund}}$$

C. Profitability Ratio

Profitability ratio is one of the main indicators to analyze the financial performance of the firm. Profitability ratios are calculated to enlighten the end result of business activities, which is the major criterion of the overall efficiency of the business concern. It measures the operating efficiency of the company.

Profitability ratio measures the degree of success in achieving desired level of the firm's profit. Profitability also indicates public acceptance of the product and shows the firm can produce competitively. The ratio can be computed on the basis of either sales or investment.

In this study, this ratio has been computed on the basis of investment so it is also known as return on investment ratio. Profitability ratio of a firm should always be higher.

Profitability position of the firm can be presented through the following different ways.

i) Return on Loan and Advance Ratio

Return on loan and advance ratio indicates how efficiently the bank has utilized its resources in form of loan and advances. This ratio is calculated by dividing net profit (loss) by total amount of loan and advances. This can be calculated as,

$$\frac{\text{Net Profit(loss)}}{\text{Loan and Advances}}$$

ii) Return on Total Working Fund Ratio (ROA)

This ratio shows the overall profitability of all working fund i.e. total assets, it is also known as Return on Assets (ROA). A firm has to earn satisfactory return on assets of working fund in order to long-term service. This ratio is calculated by dividing net profit (loss) by total working fund. It can be calculated as,

$$\frac{\text{Net Profit(loss)}}{\text{Total Working Fund}}$$

iii) Total Interest Earned to Total Loan and Advances Ratio

Total interest earned to Total Loan and Advances Ratio measures the income as interest from total loan and advances. Interest income could be increased by embracing good issuing and recovery credit policy. High return shows the soundness of credit policy.

$$\frac{\text{Total interest earned}}{\text{Total Loan and Advances}}$$

D. Risk Ratios

Risk means uncertainty, which lies in the banking transaction of credit management. It increases effectiveness and profitability of the bank. These ratios indicate the amount of risk associated with the various harming operations, which ultimately influence the bank’s credit and investment policy. Following two ratios are evaluated.

i) Liquidity Risk Ratio

This ratio measures the level of risk associated with the liquid assets i.e. cash, bank balance that are kept in the bank for the purpose of satisfying the deposit demand for cash. Higher ratio shows lower liquidity risk. This ratio is calculated by dividing total cash and bank balance by total deposit.

It can be computed as:

$$\frac{\text{Total Cash and bank Balance}}{\text{Total Deposit}}$$

ii) Credit Risk Ratio and Provisioning

Credit Risk Ratio

This ratio measures the possibility that loan will not be repaid or the investment will deteriorate in quality of going into default with consequently loss to the bank. According to definition, credit risk ratio is expressed as the percentage of non-performing loan to total loan and advances.

The ratio can be computed as:

$$\frac{\text{Non performing Loans}}{\text{Total Loans and Advances}}$$

Loan Loss Provision to Total Loan and Advances Ratio

This ratio describes the quality of assets that a bank is holding. The low ratio indicates the good quality of assets in total volume of loan and advances and high ratio indicates more risky assets in total volume of loan and advances.

The ratio can be computed as follow:

$$\frac{\text{Loan Loss Provision}}{\text{Total Loan And Advances}}$$

E. Adequacy of Loan Loss Provisioning

Nepal Rastra Bank has set up directives regarding the maintenance of loan loss provision for different types of loan of commercial banks. In this way, this analysis comprises the adequacy of loan loss provision as per NRB directives of the sample banks for the study period. Adequacy is measured by computing the ratios of loan loss provisioning to loans and advances of different classified loan.

i) Pass Loan Provision to Total Pass Loan

This ratio measures whether the sample banks under the study has maintained the pass loan provision of at least 1% of total pass loan according to NRB directive throughout the review period.

The ratio can be computed as follow:

$$\frac{\text{Pass Loan Provision}}{\text{total Pass Loan}}$$

ii) Sub-standard Loan Loss Provision to Total Sub-standard Loan

This ratio measures whether the sample banks under the study has maintained the Sub-standard Loan Loss provision of at least 25% of total Sub-standard loan according to NRB directive throughout the review period. The ratio can be computed as follow:

$$\frac{\text{Sub Standard Loan Loss Provision}}{\text{Total Sub Standard Loan}}$$

iii) Provision for Doubtful Debt to Total Doubtful Debt

This ratio measures whether the sample banks under the study has maintained the Provision for Doubtful Debt of at least 50% of Total Doubtful Debt according to NRB directive throughout the review period. The ratio can be computed as:

$$\frac{\text{Provision for Doubtful Debt}}{\text{Total Doubtful Debt}}$$

iv) Provision for Bad debt(Loss) to Total Bad Debt(Loss)

This ratio measures whether the sample banks under the study has maintained the Provision for Bad (Loss) Debt of at least 100% of Total Bad (Loss) Debt according to NRB directive throughout the review period. The ratio can be computed as follow:

$$\frac{\text{Provision for Bad (Loss)}}{\text{Total Bad (Loss) Debt}}$$

Statistical Tools

Some important statistical tools has been used to present and analyze the data for achieving the objective of the study. Simple analytical statistical tools such as graph, percentages, Karl Person's Coefficient of Correlation, method of least square are adopted which are as follows:

i) Coefficient of Correlation Analysis

This analysis interprets and identifies the relationship between two or more variables.

- Coefficient of correlation between Total Deposit and Loan and Advances.
- Coefficient of correlation between Net income and Loan and Advances.
- Coefficient of correlation between Interest Earned and Loan and Advances
- Correlation between Non performing Loan and Total Loan & Advances

The above ratio tools analyzes the relationship between these relevant variables and helps the bank to make appropriate policies regarding deposit collection, fund utilization (loan and advances and investment) and profit maximization.

To find out those relationships, the following formula is used:

$$r = \frac{\sum xy}{\sqrt{\sum x^2}\sqrt{\sum y^2}}$$

Where, $x = (X - \bar{X})$, $y = (Y - \bar{Y})$

The result of coefficient of correlation is always between -1 to +1, where r= +1 means there is a positive relationship between two variables and where r=-1, means there is a negative relationship between two variables.

ii) Trend Analysis

Under this topic, we analyze the trend of deposit, loan and advances, net profit and non performing loan of NABIL, NIBL and SCBL from F/Y 2002 to F/Y 2006 is analyzed that helps to make forecasting for next five years up to 2011. The following trends of the concerned banks have been computed for the analysis:

- Trend analysis of total deposit
- Trend analysis of loan and advances
- Trend analysis of net profit

- Trend analysis of Non Performing Loan

The trend analysis of related variable can be calculated as, Y= a+bx

iii) Test of Hypothesis

A hypothesis is defined by Webster as "A tentative theory or supposition provisionally adopted to explain certain facts and to guide in the investigation of others".

For the test of hypothesis F-test has been used under this study, since the number of sample of three commercial banks is taken from the population.

The objective of this test is to test the significant different regarding the parameters of the population on the basis of sample drawn from the population this test has been conducted on the various relations related with the banking business.

- Test of hypothesis on loan and advances to total deposit ratio of NABIL, NIBL and SCBNL.
- Test of hypothesis on Return on loan and advances of NABIL, NIBL and SCBNL.

i) Standard Deviation (S.D.)

The measurement of the scatterness of the mass of figures in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. The greater the amount of dispersion, greater the standard deviation. Means a high degree of uniformity of the observations as well as homogeneity of the series, a large standard deviation means just the opposite. In this study standard deviation of different ratios are calculated as under:

$$S.D = \sqrt{\frac{\sum(X-\bar{X})^2}{N}}$$

where, X= variable, $\bar{X}$= Mean and N= No. of Period

ii) Coefficient of Variation (C.V)

The coefficient of variation is the relative measure of dispersion, comparable across distribution, which is defined as the ratio if the standard deviation to the mean expressed in percent, it is computed as:

$$C.V = \frac{S.D.}{Mean} \times 100\%$$

Major Findings of the Study

The major findings of the study are divided on the basis of financial and statistical data of NABIL, NIBL and SCBNL, which are given below:

Liquidity Ratio

- The mean current ratio of SCBNL is computed as 0.14 times which is slightly higher than that of NIBL's 0.12 times and NABIL's 0.10 times. Likewise, variability of ratios of SCBNL is 0.15%, NIBL's is 0.21% and NABIL's is 0.07%. From which we can say that NABIL's ratios are more uniform than that of SCBNL and NIBL in comparison.
- On average of 5 years of review period, cash and bank balance to total deposit ratio of NABIL, NIBL and SCBNL are 6.10%, 12.06% and 7.02% respectively. NIBL's liquidity position is better than that of SCBNL and NABIL. There is also a higher consistency in the ratios of SCBNL followed by NIBL and then NABIL with the lowest consistency in ratios among the three banks.
- The mean ratio of cash and bank balance to current asset ratio of SCBNL is 0.49% which is the lowest among the three banks. NABILL has mean ratio of cash and bank balance to current assets of 0.42%.
- The mean ratio of loan and advances to current asset of NABIL is 6.49% followed by NIBL with 5.99% and then by SCBNL with 2.90% which is the lowest among the three banks. SCBNL has also the lowest consistency in its ratios with 0.15%. Likewise, NIBL has 0.18% and NABIL has 0.21% (which shows the highest consistency among the three banks).

Assets Management Ratio

- The mean ratio of loan and advances to total deposit of NABIL, NIBL and SCBNL are 0.69%, 0.73% and 0.42% respectively. The utilization of Total deposit as loan and advances of NIBL seems to be higher than that of NABIL, whereas SCBNL's utilization of Total deposit as loan and advances is much lesser than that of the other two banks i.e. NABIL and NIBL. Likewise from the perspective of consistency NIBL has the highest consistency in its ratio with 0.07% followed by SCBNL 0.08% and then NABIL with 0.40%.
- The mean ratio of Total Investment to total deposit of NABIL, NIBL and SCBNL are 0.32%, 0.24% and 1.28% respectively. The utilization of Total deposit as Investment in different types of securities issued by government and other financial and non-financial companies of SCBNL seems to be much higher than that of NABIL and NIBL. The mean ratio of Total Investment to Total deposit ratio of NIBL is reveled as the least among the three banks under study. Likewise from the perspective of consistency SCBNL has the highest consistency in its ratio with 0.03% followed by NIBL with 0.24% and then NABIL with 0.43%.
- The mean ratio of Loan and Advances to total working fund of NABIL, NIBL and SCBNL are 0.59%, 0.64% and 0.37% respectively. NIBL seems to have much higher mean ratio than that of NABIL and SCBNL. Whereas SCBNL has the lowest mean ratio among the three banks under study. Likewise from the perspective of consistency NABIL has the highest consistency in its ratio with 0.05% followed by NIBL with 0.07% and then SCBNL with 0.11%.

Profitability Ratio

- The mean ratio of return on Loan and Advances of NABIL, NIBL and SCBNL are computed as 4.28%, 2.61% and 6.80% respectively. SCBNL seems to have much higher return from loan and advances, followed by NIBL and then NABIL. Likewise from the perspective of consistency in Return on loan and advances ratio NIBL has the highest consistency in its ratio with 0.06% followed by SCBNL with 0.09% and then NABIL with 0.15%.
- The mean ratio of return on Total Working Fund of NABIL, NIBL and SCBNL are computed as 2.55%, 1.68% and 2.48% respectively. NABIL seems

to have highest return from total working fund among the three banks, followed by SCBNL and then NIBL. Likewise from the perspective of consistency in Return on total working fund ratio of SCBNL has the highest consistency in its ratio with only 0.02% variation followed by NIBL with 0.05% and then NABIL with 0.16%.

- The mean ratio of Total Interest Earned to Total Loan and Advances of NABIL, NIBL and SCBNL are computed as 9.97%, 8.88% and 13.03% respectively. SCBNL seems to have highest mean ratio among the three banks, followed by NABIL and then NIBL. Likewise from the perspective of consistency, ratios of NABIL have the highest consistency with 0.04% variation in its ratios followed by NIBL with 0.05% and then SCBNL with 0.85%.

Risk Ratio

- Through computing liquidity risk ratio, the liquidity of NABIL, NIBL and SCBNL in terms of average is computed as 6.10%, 11.91% and 7.02% respectively. NIBL's liquidity in terms of average i.e. 11.91% seems to be much higher than that of NABIL's 6.10% and SCBNL's 7.02%. Likewise from the perspective of consistency, ratios of SCBNL have the highest consistency among the banks with 0.20% variation in its ratios followed by NIBL with 0.25% and then by NABIL with 0.43%.
- The credit Risk ratio or Non Performing Loan to Total Loan and Advances ratio of NABIL, NIBL and SCBNL are computed as 1.10%, 1.83%, & 1.69% respectively. The Non Performing Loan with respect to Loan and Advances of NIBL seems to be the highest among the three banks followed by SCBNL and NIBL. Likewise from the perspective of consistency, ratios of NABIL have the highest consistency among the banks with 0.28% variation in its ratios followed by NIBL with 0.51% and then by SCBNL with 0.52%.
- The mean Loan Loss Provision to Loan and Advances ratio of NABIL, NIBL and SCBNL are computed as 2.36%, 2.56% and 2.49% respectively. NIBL's Loan loss provision with respect to its Total Loan and Advances seems to be higher than that of NABIL and SCBNL. Likewise from the perspective of consistency, ratios of NIBL have the highest consistency among the banks with

0.29% variation in its ratios followed by NABIL with 0.32% and then by SCBNL with 0.33%.

Adequacy of Loan Loss Provisioning

- On average NABIL, NIBL and SCBNL have been able to maintain the pass loan provision of at least 1% of the total pass loan as according to the NRB directives. However the consistency in ratios of each bank has been different. NIBL have the highest consistency in its ratio among the banks with 29% variation in its ratios followed by NABILL with 32% and then by SCBNL with 33%.
- On average only NABIL has been able to meet the standard set by the NRB even though it has failed to maintain the standard as set by NRB in each of the review year. Whereas NIBL and SCBNL has maintained the standard as set by NRB in some of the review years but in aggregate both of the banks have failed to meet the standard of having substandard loan loss provision at least 25% of the total substandard loan.
- Similarly SCBNL has also been able to meet the standard on average and in each of the review year as well. Whereas NIBL has maintained the standard as set by NRB in some of the review years but in aggregate NIBL has failed to meet the standard of having provision for doubtful debt of at least 50% of the total doubtful debt.
- On average only SCBNL has been able to meet the standard set by the NRB, even it has maintained the standard as set by NRB in each of the review year. Whereas, NABIL and NIBL have failed to meet the standard of having provision for bad debt of 100% of the total bad debt not even in single year of the review period.

Co-efficient of Correlation Analysis

- Coefficient of correlation between **total deposit and loan and advances** of NABIL, NIBL and SCBNL has a positive relationship. The relationship between the total deposit and loan and advances is significant in case of all these three banks. However, the value of r^2 is different in either case.. It indicates that the increase in loan and advances is due to increase in deposits or successful mobilization of deposit in both three banks and other factors have nominal role in increment of loan and advances as compare to deposit.

- There is a positive correlation between the **Net Income and loan and advances** of NABIL, NIBL and SCBNL. The relationship between the Net Income and loan and advances is significant in case of all these three banks. However, the value of r^2 is different in each case. In case of NABIL and SCBNL the value of r^2 same, but yet shows good percentage of dependency.
- There is the positive correlation between the **interest earned and loan and advances** of NABIL, NIBL and SCBNL. The relationship between the interest earned and loan and advances is significant in case of NABIL, NIBL and SCBNL. The value of r^2 is same in each case. In case of NABIL, NIBL and SCBNL the value of r^2 is same, but yet shows good percentage of dependency. It indicates that the increase in interest income is due to increase in loan and advances and other factors have nominal role in increment of as compare to loan and advances.
- There is the negative correlation between the **NPL and loan and advances** of NABIL and SCBNL which implies that NPL has been decreasing with the increment in loan and advances due to effective recovery of non-performing loan. Similarly the relationship between the NPL and loan and advances is positive in case of NIBL which implies that NPL of NIBL has been increasing with the increment in loan and advances. Likewise, there is insignificant relationship between the NPL and loan and advances of NABIL and SCBNL, however, there is a significant relationship between the NPL and loan and advances of NIBL.

Trend Analysis

- The trend value of **loan and advances** of NABIL, NIBL and SCBNL are in increasing trend. If other thing remains the same, loan and advances of NABIL in mid-July 2014 will be Rs. 47316.92 million. Similarly, NIBL’s loan and advances for mid-July 2014 has been forecasted to be Rs.67432.40 million and SCBNL’s loan and advances for mid-July 2014 has been forecasted to be Rs.22095.32 million. This analysis, clear’s that NIBL’s utilization of deposit in term of loan and advances is comparatively higher than that of NABIL and SCBNL.

- The trend value of **Total Deposit** of NABIL, NIBL and SCBNL are in increasing trend. If other thing remains the same the total deposits of NABIL, NIBL and SCBNL for mid-July 2014 has been forecasted to be Rs 65971.58 million, Rs. 84052.14 million and Rs. 22095.32 million respectively. The analysis also reveals that the deposit position of NABIL, NIBL and SCBNL are increasing in same proportion. Yet NIBL will be most successful among the three banks to deposit huge amount followed by NABIL and. SCBNL
- The trend value of **Net Profit** of NABIL, NIBL and SCBNL are in increasing trend. If other thing remains the same the Net Profit of NABIL, NIBL and SCBNL for mid-July 2014 has been forecasted to be Rs. 1514.53 million, Rs1714.48 million and Rs. 1542.67 million respectively. NIBL's rate of generating net profit is highest among the three banks followed by SCBNL and NABIL. Although SCBNL is ahead of NIBL in generating net profit, NIBL's rate is much higher than SCBNL though.
- The trend value **Non-performing loan** of NIBL and SCBNL is in decreasing trend, whereas NABIL has increasing trend in NPL.

Test of Hypothesis

- There is significance difference between mean ratio of loan and advances to total deposit of NABIL, NIBL and SCBNL.
- There is significance difference between mean ratio of return on loan and advances of NABIL, NIBL and SCBNL.

Summary and Conclusion

From the analysis made during the study period of the concerned sample banks, certain conclusion has been derived after the financial as well as statistical tools have been measured on behalf of different aspect of the Credit Management of the concerned banks under study.

The liquidity position of NABIL, NIBL and SCBNL have been satisfactory, the liquidity of each bank have been different though. On average the liquidity position of NABIL is not as good as that of NIBL and SCBNL but yet satisfactory.

Likewise, the liquidity position of NIBL is comparatively better than that of NABIL and SCBNL. It has the highest average Cash and Bank Balance to Total Deposit Ratio, Cash and Bank Balance to Current Assets ratio and Loan and Advances to Current Assets Ratio but . Overall NIBL shows that it is in good position to meet the daily cash requirement; however. The liquidity ratios of NIBL are also stable and consistent which indicates the stable policy of NIBL regarding the liquidity in comparison to NABIL and SCBNL.

Likewise, the liquidity of SCBNL has been moderate with comparison to NIBL and NABIL, but it has the highest current assets ratio on average among the three banks.

On the basis of Assets management ratio it has been concluded that NIBL is in better position than NABIL and SCBNL though on average NIBL has the lowest total investment to total deposit ratio in comparison to NABIL and SCBNL. NIBL has successfully utilized its deposit on loan and advances but has lower investment in other sectors due to which its total investment to total deposit ratio has been the lowest among the three banks but yet occupies a better position among the banks since it has the highest loan and advances to total deposit ratio and loan and advances to total working fund ratio.

Likewise compare to other two banks NABIL has moderate average loan and advances to total deposit ratio, total investment to total deposit ratio and loan and advances to total working fund ratio. The Assets management ratio of NABIL has been satisfactory according to the analysis made.

Likewise compare to NABIL and NIBL, SCBNL has the lowest average Loan and advances to total deposit ratio, loan and advances to total working fund ratio, but it has the highest total investment to total deposit ratio.

On the basis of the analysis of profitability, in comparison among the banks NABIL has the highest return on total working fund on average but in case of return on loan and advances and total interest earned to total loan and advances ratio it is behind SCBNL but ahead NIBL.

Likewise SCBNL has highest return on loan and advances and total interest earned to total loan and advances ratio on average but it has only a moderate return on total working fund ratio.(higher than that of NIBL and slightly lower than NABIL).

According to the analysis, on average NIBL has the lowest return on loan and advances, total interest earned to total loan and advances ratio and return on total working fund among the three banks under study.

On the basis of the analysis of risk ratio, conclusively, from the view point of liquidity risk we can say that NIBL has maintained higher liquidity which would obviously results lower profit than SCBNL and NABIL. Whereas NABIL has the least liquidity among the three banks with stable liquidity risk ratio, which means NABIL has taken higher risk than the other two banks under study for the higher profit.

Similarly from the view point of Credit risk and provisioning against the credit risk NIBL has taken the higher credit risk with moderate credit risk provisioning followed by SCBNL with second highest credit risk and the highest provisioning against the NPL among the banks under study. Then NABIL which seems to be in the safe side with least NPL to total loan and advances ratio as compare to NIBL and SCBNL. NABIL has also the least loan loss provisioning to total loan and advances ratio among the three banks under study.

On the basis of coefficient of correlation, there is a positive correlation between Total Deposit and Loan and Advances, Net Income and Loan and Advances, Interest earned and Loan and Advances of NABIL, NIBL and SCBNL. However, the correlation between NPL and Loan and Advances of NIBL and SCBNL is negative which implies that NPL has been decreasing with the increment in loan and advances due to effective recovery of non-performing loan, but in case of NABIL it is positive which implies that NPL of NABIL has been increasing with the increment in loan and advances. There is a significant relationship between Total Deposit and Loan and Advances, Net Income and Loan and Advances of the three banks. The relationship between Interest earned and Loan and Advances of NABILNIBL and SCBNL is significant. Likewise there is significant relationship between the NPL and loan and advances of NABIL NIBL and SCBNL.

On the basis of Trend analysis it can be concluded that the trend value of Loan and Advances, Total Deposit and Net Profit of NABIL, NIBL and SCBNL is in increasing trend. However the trend value of NPL of NIBL and SCBNL is decreasing whereas it is increasing in case of NABIL.

NABIL has significantly high NPL in total volume of loans and advances and it has incremental rate, which NABIL should initiate immediate reform. Whereas NIBL and SCBNL have decreasing trend in NPL, SCBNL's decreasing rate in NPL is much higher than that of NIBL.

The both hypothesis test of mean Loan and advances to total deposit ratio and mean Return on Loan and Advances ratio between NABIL, NIBL and SCBNL shows that there is significant difference between these ratios of the banks under study.

Recommendation

Recommendations are the final output of the whole study. It helps to convey positive information and proper way of improvement to concern banks NABIL, NIBL and SCBNL and as well as other interest researcher in upcoming days. Various analyses have been done until this stage. On the basis of analysis and finding of the study, following suggestion and recommendation can be advanced to overcome weakness, inefficiency and satisfactory improvement policy of NABIL, NIBL and SCBNL.

- The cash and bank balance to total deposit measures the availability of bank's highly liquid or immediate funds to meet its unanticipated calls on all types of deposits. The cash and bank balance of NIBL with respect to deposit is better against the readiness to serve its customer's deposit than NABIL and SCBNL. It implies that better liquidity position of NIBL. In contrast, a high ratio of non-earning cash and bank balance may unfit, which indicates the bank's unavailability to invest its fund in income generation areas. Thus NIBL is suggested to invest in more productive sectors like short-term marketable securities, treasury bills etc. insuring enough liquidity which will help the bank to improve its profitability.

- To get success in competitive banking environment, depositor's money must be utilized as loan and advances. If it is neglected, then it could results to liquidity crisis in the bank and one of the main reasons for the bank's failure. It is found that NIBL's loan and advances to total deposit ratio is comparatively the highest among the three banks followed by SCBNL, then NABIL. NABIL's ratios seems much lower than that of NIBL and SCBNL so it is recommended that NABIL should follow liberal policy, invest more and more percentage of total deposit in loan and advances and maintain more stability on the credit policy.
- There is highly positive correlation between the Total deposit and loan and advances of NABIL, NIBL and SCBNL. So it is recommended for the banks under study especially for NIBL to increase their total deposit to make more loan and advances, since correlation between the Total deposit and loan and advances of NIBL is much higher compare to NABIL and SCBNL.
- The loan loss provisioning and high volume of Non-performing loans of NIBL is in increasing trend which is certainly not sign of efficient credit management. Where as it is decreasing in case of NABIL and SCBNL. However NABIL's NPL is decreasing in higher rate than that of SCBNL. It is recommended to NIBL to adopt sound credit collection policy and other two banks to maintain and implement its credit policy even more efficiently, which would help them to decrease loan loss provision and non-performing loan. The policy should ensure rapid identification of delinquent loans, immediate contact with borrowers and continual follow-up until a loan recovery. The recovery of loan is the most challenging job for the bank. Therefore the banks must embrace a strengthen credit management.
- The banks under study are also recommended to strictly follow the NRB directives regarding the loan classification. Since it is found that the banks under study has not been able to maintain certain standards as set by the NRB.
- The banks are recommended to adopt innovative approach to marketing. In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its marketing

function, as it is an effective tool to attract and retain the customers. For the purpose banks should develop and innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices.

- Banks should avoid extending credits merely based on oral information presented at the credit interview. Historical, financial and trade records as well as realistic cash flow projection should be obtained for proper assessment of the proposal.
- Banks should also regularly follow the credit customer to confirm that whether the customers have utilized their credit for the same purpose committed at the time of taking credit from the bank.
- There has been communication gap between the banks even though they are on the same business of banking. Banks need to develop a mechanism for inter-bank transparency, a committee which will help the better understanding of the various types of risk, disseminate information regarding bad debts and frauds cases, minimize customer misleads and practice fair competition.

Timely and effectively implementation of these corrective actions would lead the bank towards the path of its continued success and future progression